

REDSTONE MINES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Unaudited)

For six months ended June 30

	<u>1970</u>	<u>1969</u>
Source of funds		
Proceeds from issue of capital stock		\$ 50,000
Profit on sale of securities		2,125
Sale of permits (net)		39,500
Refund of deposits on permits		<u>9,743</u>
		101,368
Application of funds		
Exploration expenditures		
Participation in oil projects	\$ 4,982	2,703
Geophysical survey		1,587
Consulting fees	3,000	3,000
Miscellaneous	<u>32</u>	<u>274</u>
	8,014	7,564
Administrative and general expenditures		
Management and office service fees	5,400	5,400
Share transfer expense	270	246
Shareholders information	154	450
Travel		156
Licences and recording fees	351	285
Miscellaneous	34	17
Interest expense	<u>9</u>	<u>15</u>
	6,218	6,569
	14,232	14,133
Deduct interest earned	<u>1,757</u>	<u>3,964</u>
	12,475	10,169
Refundable deposit on prospecting permit		<u>28,840</u>
	<u>12,475</u>	<u>39,009</u>
Increase (decrease) in working capital	(12,475)	62,359
Working capital at beginning of period	<u>169,701</u>	<u>117,876</u>
Working capital at end of period	<u>\$157,226</u>	<u>\$180,235</u>

24

**REDSTONE
MINES LIMITED**

INTERIM REPORT

AUGUST, 1970

REDSTONE MINES LIMITED

Report to Shareholders:

The directors are pleased to announce that a Joint Venture agreement, dated August 7, 1970, has been signed between Redstone Mines and Cerro Mining Company of Canada Limited. Under this agreement Cerro will finance and manage an exploration program on the 32,000 acres of mineral lands owned by Redstone in the Nahanni Mining District of the Northwest Territories.

Cerro now has a 20-man crew exploring the properties in a program slated to cost not less than \$500,000. There are several key provisions of the agreement:

- Cerro will spend \$500,000 by December, 1971, and has the option to increase its expenditures to \$1,500,000 by December, 1973.
- Should Cerro elect to withdraw from the Venture after spending \$500,000, it will have earned no interest in Redstone's properties; should Cerro spend \$1.5 million it will then have earned a 45% interest.
- By providing all funds required to attain commercial production, Cerro can increase its interest to 49%, while Redstone retains 51%. All funds provided by Cerro in excess of \$1.5 million are to be repaid out of 75% of first production profits.
- Cerro, after providing production financing, has the option to increase its interest in the Joint Venture properties to 80% by cash payments to Redstone totalling approximately \$3.1 million. The first of these annual option payments is \$75,000 and is due in 1974, with annual payments increasing each year thereafter.

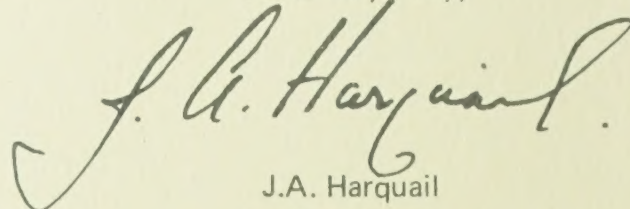
- Should Cerro proceed to production and exercise all options, Redstone will receive 20% of all mine profits plus the approximate \$3.1 million cash. No part of the exploration or production funds would be provided by Redstone.

Excellent progress is being made on the \$90,000 exploration program of the Rankin Nickel Syndicate in which Redstone has about 15% interest. An airborne geophysical survey has been completed and about 60 strong anomalies outlined. These features are now being checked on the ground by our geophysical and geological crews.

The properties are located at Rankin Inlet, on the west shore of Hudson Bay, about 300 miles north of Churchill, Manitoba. One area of disseminated copper-nickel mineralization has already been discovered and additional claims are being acquired to protect this and other discoveries.

A statement of source and application of funds for the six months ended June 30, 1970, accompanies this interim report.

Yours very truly,



J.A. Harquail
President

Toronto, Canada
August 26, 1970